

STATE OF MICHIGAN
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
MICHIGAN INSURANCE BUREAU

A Report on Short Term or 1 Time Limited Duration Health Insurance Policies
Year Ended 1999

In 1996 the Patient's Bill of Rights legislation was signed into law in Michigan. Part of that legislation required health insurers to renew or continue in force a nongroup policy or certificate at the option of the individual and a group policy or certificate at the option of the plan. Prior to the enactment of this legislation, health insurers marketed and sold short-term health insurance policies that were not renewable after a specific period of time. Individuals who are between jobs, students who no longer are covered under their parents' policies, and those who may be waiting to become eligible for benefits under a more comprehensive policy often purchase short-term policies. Although these policies never represented a large portion of the health insurance market, an estimated 100,000 policies were in effect in 1997. They served a purpose for individuals who found themselves without coverage for one of the above reasons.

With the enactment of the Patient's Bill of Rights, these policies could no longer be sold because they could not meet the renewable language required in the bill. The short-term policy is nonrenewable, must be in effect for only 185 days or less in a calendar year, does not cover any preexisting conditions, is available with an immediate effective date, and without underwriting unless optional benefits are offered. Legislation had to be passed to allow these types of policies an exemption from the renewal requirements of the new bill.

The legislature recognized the need for this type of product in the health insurance environment and in December of 1998 passed legislation (PA 457 of 1998), creating the exemption for the short-term product. Recognizing a potential for misuse of this product to circumvent the Patient's Bill of Rights Act requirements, the legislature put additional requirements in the exemption to allow the Commissioner and the legislators to monitor the growth of this market in order to determine if a need continued for this type of policy and the exemption.

The legislation required that no later than March 31, 1999 and annually thereafter, a written annual report be submitted that disclosed the gross written premium for short-term or 1-time limited duration policies or certificates issued in Michigan during the preceding calendar year, and the gross written premium for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan during the preceding calendar year.

The Commissioner is required to maintain copies of these reports and must annually compile the reports received under this subsection and provide the annual compilation to the senate and the house of representatives standing committee on insurance issues no later than the June 1 immediately following the March 31 date for which the reports were provided.

The statute contains a requirement that a health insurer not continue to offer the short-term policies if issuing the policies would cause the collective gross written premium to total more

than 10% of the collective gross written premiums for all individual expense-incurred hospital, medical, or surgical policies or certificates issued in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

Since this is the first annual report, there is insufficient information to document trends in the market. Trends will be addressed in future reports, as more data are collected.

Following is a report of the current number of companies writing this coverage, the names of those companies, the total direct premium written during 1999, and the direct losses paid.

Short Term or 1 Time Limited Duration Health Insurance Policies

Company	Policies In Force	Member Months	Direct Prem. Written	Direct Losses Paid	% Individ. Market
Individual Business					
American Community Mut. Ins. Co.	1,022		1,040,249	71,790	.01%
Clarica Life Ins. Co. - U.S.	4	48	3,183	1,076	less than .01%
Columbia Casualty Co.			586	0	.01%
Continental Casualty Co.			1,640		.01%
Continental General Ins. Co.	8	72	8,326	0	.02%
John Alden Life Ins. Co.	355	1,105	67,010	2,841	less than .01%
Mutual of Omaha Ins. Co.	5	24	1,470	0	less than .01%
Pennsylvania Life Ins. Co.	1,963	24,606	218,850	100,615	.07%
State Farm Mutual Auto. Ins. Co.	150	2,118	114,319	18,853	less than .01%
Trustmark Insurance Co.		10	793	0	less than .01%
World Insurance Co.	3	30	591	0	.01%
Group Business					
Columbia Casualty Co.			574	0	.01%
Continental Casualty Co.	3		27,838	0	.01%
Fidelity Security Life Ins. Co.	1		18,950	4,022	less than .01%
Legion Insurance Co.	2	2	940	0	less than .01%

The four major companies writing this type of insurance are American Community, John Alden Life, Pennsylvania Life, and State Farm Mutual Auto. All four have a sizeable major medical individual market that allows them to meet the 10% standard found in the statute. All other companies writing this business also meet that standard.

Conclusion

As expected, most of the short-term, limited duration policies are written in the individual market. Individuals who would normally purchase this type of coverage would not have group policies available to them. The group policies are traditionally written through associations, whose members may have need for the short-term coverage. For example, if a person joined a professional association after graduation from college, that association might offer the short-term policy to that member until they could purchase an employer group policy once they found a permanent position.

As more years pass, the information gathered should support a trend analysis for this type of business. However, the information for this report only supports the 10% standard found in the statute.